

FDIC State Profile

Winter 2005

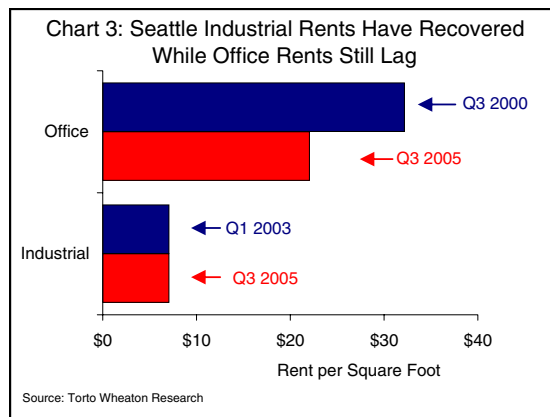
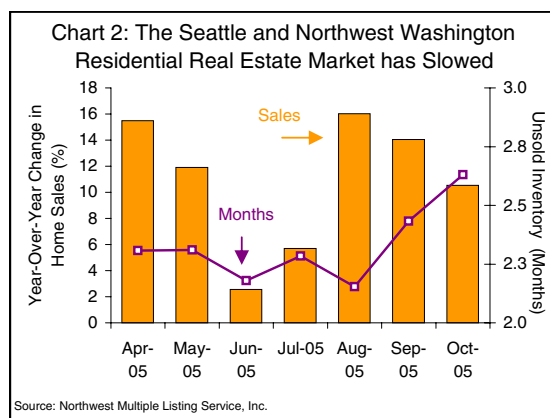
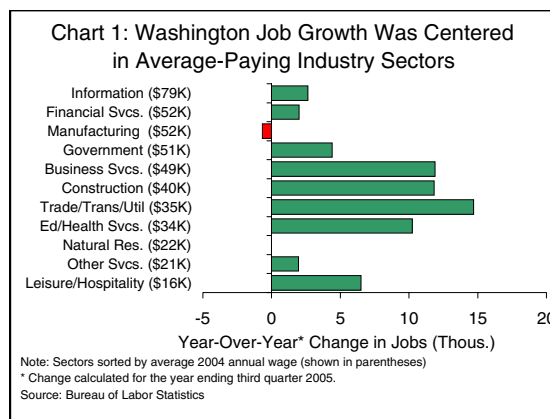
Washington

Washington job growth improved and wages increased.

- Washington job gains continued to accelerate in third quarter 2005 and ranked ninth nationwide. Recently released wage data for first quarter 2005 show that Washington wages increased 2.4 percent, slightly above the national wage growth of 2.2 percent. Wage gains in **Snohomish County** (part of the **Seattle** metropolitan area) led the state and ranked in the top 15 percent of large counties nationwide.
- Recent job growth was led by the trade/transportation/utilities sector, followed closely by the business services and construction sectors. All three reported annual wages near the state average of \$39,300 (see Chart 1). However, continued job losses in the high-paying manufacturing sector likely constrained the state's overall wage growth.
- Forecasts indicate that Washington job growth will continue to exceed the national pace through 2006.¹

Washington residential markets remained robust.

- During third quarter 2005, Washington year-over-year home price appreciation at 15.6 percent was down slightly from the prior quarter but was still much higher than the nation's 12 percent pace.²
- Year-over-year home price growth also cooled among most major metropolitan areas in Washington.
- The Seattle area residential housing market, although still robust with year-over-year home price appreciation of 14.5 percent, has shown potential signs of slowing. Seattle home sales increased year-over-year in September and October, but at a slower pace, and new listings outpaced sales (see Chart 2).



¹Forecast data from Moody's Economy.com.

²Home price appreciation data is from the Office of Federal Housing Enterprise Oversight.

Commercial real estate continued to improve.³

- In Seattle, industrial rental rates match their previous cyclical peak. Office sector vacancies improved, but rents remain below prior cycle peak levels (see Chart 3).
- Third quarter 2005 apartment vacancies in Seattle declined to 7.0 percent and rents edged up slightly due to constrained supply. However, permits and projected completions of multifamily units were up 3 percent at third quarter from the same period the prior year.
- Hotel occupancy rates in Seattle reached nearly 67 percent in third quarter 2005, the highest level since 2001.

Strong population growth helped spur banking activity.

- Washington, with the 12th fastest population growth rate in the nation in 2004 and a rank among the top 20 states for the last 21 years, experienced solid banking activity. Washington added 33 banking offices between June 2004 and June 2005 and ranked 29th nationally in office growth.
- Most new offices were added in Seattle (16). Seattle has slightly more people per banking office than metropolitan areas nationwide (see Map 1).
- As of June 2005, out-of-state institutions held 63 percent of deposits in Washington branches, compared with only 47 percent five years ago. This is a reflection of both new entrants and industry consolidation.

Bank and thrift earnings performance strengthened.

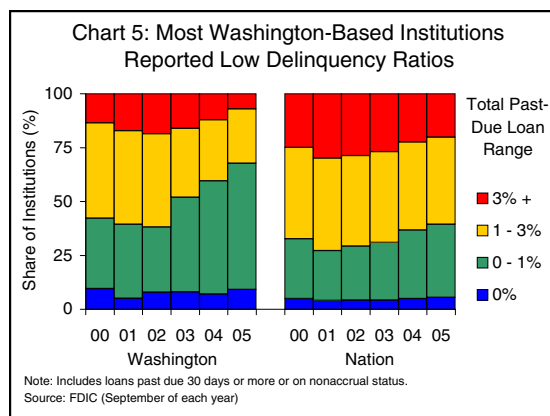
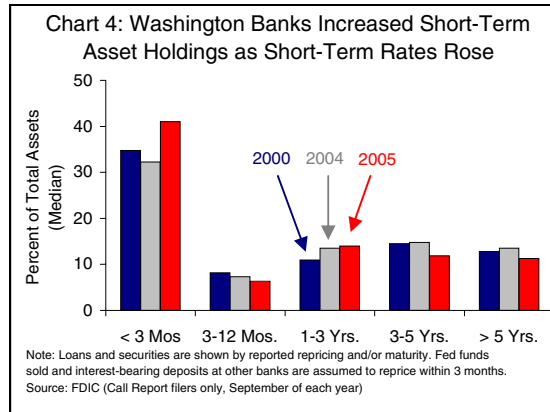
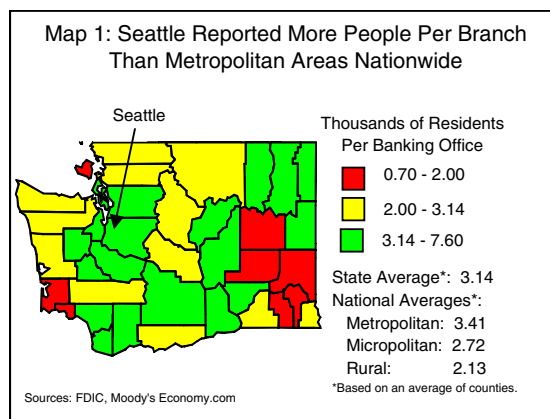
- Third quarter 2005 earnings at Washington-based insured institutions increased year-over-year. Net interest margin expansion and overhead expense reductions offset decreased noninterest income. Noninterest income suffered from lower service charges and gains on the sale of loans.
- Washington-based banks held large volumes of instruments that reprice quarterly, which, in part, contributed to higher net interest margins (see Chart 4).⁴ The median ratio of such short-term assets to total assets was 41 percent for Washington banks, compared to 25 percent for banks nationwide. In addition, Washington banks and thrifts held the second highest median loan to asset ratio nationwide, which continued to buoy net interest margins.

³Based on office and industrial property data from Torto Wheaton Research and hotel and apartment market data from Property & Portfolio Research.

⁴Asset-sensitive institutions have interest-bearing assets maturing or repricing more quickly than interest-bearing liabilities.

Problem loan ratios declined and loan growth was strong.

- Washington ranked tenth lowest among the states for past-due loans in third quarter 2005, and the number of institutions with delinquencies below 1 percent continued to increase, in part because of improving economic fundamentals and strong loan growth (see Chart 5).
- Construction and development (C&D) loan growth pushed the C&D loan-to-Tier 1 capital ratio to 100 percent, seventh highest in the nation. Overall, commercial real estate loan concentrations rose to 403 percent, and commercial and industrial lines represented a still-high 104 percent of capital.



Washington at a Glance

ECONOMIC INDICATORS (Change from year ago, unless noted)

Employment Growth Rates	Q3-05	Q2-05	Q3-04	2004	2003
Total Nonfarm (share of trailing four quarter employment in parentheses)	2.4%	2.1%	1.8%	1.5%	0.1%
Manufacturing (10%)	-0.2%	1.6%	-0.5%	-1.3%	-6.3%
Other (non-manufacturing) Goods-Producing (7%)	6.5%	5.0%	4.8%	4.5%	0.8%
Private Service-Producing (65%)	2.8%	2.3%	2.2%	2.0%	0.9%
Government (19%)	0.9%	0.6%	0.6%	0.5%	0.9%
Unemployment Rate (% of labor force)	5.7	5.5	6.1	6.2	7.4

Other Indicators	Q3-05	Q2-05	Q3-04	2004	2003
Personal Income	N/A	5.8%	4.3%	7.9%	2.0%
Single-Family Home Permits	11.2%	0.8%	8.4%	7.9%	4.4%
Multifamily Building Permits	-4.6%	16.3%	26.5%	29.6%	-3.9%
Existing Home Sales	20.0%	19.8%	0.8%	11.6%	13.8%
Home Price Index	15.6%	16.3%	11.9%	9.5%	4.4%
Nonbusiness Bankruptcy Filings per 1000 people (quarterly annualized level)	7.43	6.47	5.75	6.25	6.38

BANKING TRENDS

General Information	Q3-05	Q2-05	Q3-04	2004	2003
Institutions (#)	99	100	99	98	100
Total Assets (in millions)	56,487	54,889	79,991	78,503	78,396
New Institutions (# < 3 years)	7	8	8	8	6
Subchapter S Institutions	7	7	7	7	5

Asset Quality	Q3-05	Q2-05	Q3-04	2004	2003
Past-Due and Nonaccrual Loans / Total Loans (median %)	0.58	0.72	0.82	0.62	0.92
ALLL/Total Loans (median %)	1.29	1.32	1.33	1.28	1.37
ALLL/Noncurrent Loans (median multiple)	2.82	2.84	2.90	2.75	1.91
Net Loan Losses / Total Loans (median %)	0.02	0.01	0.03	0.11	0.12

Capital / Earnings	Q3-05	Q2-05	Q3-04	2004	2003
Tier 1 Leverage (median %)	10.25	10.24	9.96	9.93	9.67
Return on Assets (median %)	1.21	1.16	1.13	1.05	1.06
Pretax Return on Assets (median %)	1.67	1.65	1.62	1.53	1.46
Net Interest Margin (median %)	4.96	4.86	4.77	4.68	4.59
Yield on Earning Assets (median %)	7.11	6.78	6.23	6.19	6.31
Cost of Funding Earning Assets (median %)	2.12	1.92	1.53	1.49	1.72
Provisions to Avg. Assets (median %)	0.16	0.19	0.15	0.23	0.24
Noninterest Income to Avg. Assets (median %)	0.58	0.59	0.65	0.62	0.65
Overhead to Avg. Assets (median %)	3.36	3.37	3.42	3.56	3.52

Liquidity / Sensitivity	Q3-05	Q2-05	Q3-04	2004	2003
Loans to Assets (median %)	76.4	76.3	75.7	76.0	72.8
Noncore Funding to Assets (median %)	25.7	24.2	22.6	23.0	21.6
Long-term Assets to Assets (median %, call filers)	10.0	10.2	12.6	10.8	14.9
Brokered Deposits (number of institutions)	46	45	42	44	34
Brokered Deposits to Assets (median % for those above)	4.8	3.6	2.8	3.1	2.8

Loan Concentrations (median % of Tier 1 Capital)	Q3-05	Q2-05	Q3-04	2004	2003
Commercial and Industrial	103.7	117.4	108.5	111.8	116.3
Commercial Real Estate	402.8	383.6	342.5	371.2	357.1
<i>Construction & Development</i>	99.6	97.2	71.7	79.8	68.5
<i>Multifamily Residential Real Estate</i>	23.9	22.4	23.6	25.3	23.5
<i>Nonresidential Real Estate</i>	226.3	231.3	236.4	239.5	232.8
Residential Real Estate	85.8	95.4	111.6	103.7	107.0
Consumer	21.3	22.3	24.1	23.3	23.9
Agriculture	5.7	5.1	2.2	2.9	2.0

BANKING PROFILE

Largest Deposit Markets	Institutions in Market	Deposits (\$ millions)	Asset Distribution	Institutions
Seattle-Tacoma-Bellevue, WA	78	58,440	< \$250 million	55 (55.6%)
Spokane, WA	17	5,514	\$250 million to \$1 billion	32 (32.3%)
Bellingham, WA	14	2,517	\$1 billion to \$10 billion	12 (12.1%)
Olympia, WA	19	2,313	> \$10 billion	0 (0%)
Bremerton-Silverdale, WA	17	2,120		